

## Introduction

I am a Banker by profession, but have been involved in the financial side of the charity/not-for-profit sector for more than 30 years, primarily in treasurer's roles. I currently hold two such posts within the Scout Association in Scotland, one of which includes providing support and guidance, from an accounting and finance perspective, to a number of Scout Groups. I have therefore been following the development of charity regulation in Scotland with some interest and, in particular, the proposed new Charity Accounting Regulations. If you refer to the recent OSCR publication "Scottish Charity Accounts – A Brief Guide", you may note my name mentioned as one of the people who supported OSCR in reviewing that text.

## General

In principle, I am very supportive of the Bill, as some form of regulation of the charity sector in Scotland is long overdue. Equally the existing accounting regulations, which date back to 1992, no longer meet the needs of the sector. However, I do have a number of concerns surrounding the detail of the proposed regulations, particularly with regard to the various thresholds and the independent examination of charities that are not companies.

## Thresholds

I note it is proposed that the thresholds, (a) below which a charity may produce Receipts & Payments Accounts and (b) for auditing purposes, are both set at £250,000. Whilst this proposal clearly merits from simplicity, I do not believe that it is appropriate.

Although £250,000 may well be acceptable initially for audit purposes, I would suggest that, within 3/5 years, it should be increased to £500,000 in line with what is suggested for England & Wales. Although Scotland can justifiably be proud of its independent legal system, it makes little sense for comparable charities north and south of the border to have such significantly different limits. It adds unnecessary complications for charities operating in both England & Scotland and may even be a disincentive to some English charities that may be considering expanding their operations into Scotland.

Conversely, I believe that increasing the threshold below which Receipts & Payments Accounts may be produced from £25,000 to £250,000 is a step too far. The Summary of Proposals (p13) of the Consultation Document suggests that few charities at this level would have "*transactions of a complexity that would make receipts and payments accounts misleading*". Whilst complexity may not be an issue, the timing of transactions, particularly those of significant value (e.g. a large grant), may also have a material impact on what is disclosed by Receipts & Payments Accounts.

Grant giving and funding bodies (e.g. Banks) out of necessity place considerable reliance on published accounts in their assessment of the organisations they are being asked to support. To that end, many will wish to see a "true & fair view", as disclosed in properly prepared accruals accounts, for charities well below the proposed £250,000 threshold. I strongly suggest that a threshold of £100,000 would be more appropriate.

You seek opinion as to whether there should be a *deminimis* threshold below which independent examination should be optional, as no such exemption is currently proposed. I believe there should be such a threshold. A very large number of charities have minimal incoming resources and no/negligible assets other than relatively small cash/bank balances. Although less demanding than a full audit, an independent examination, if properly carried out, is still a significant undertaking and is thus probably unnecessary for very small charities.

Such an exemption would, of course, need to be permitted by the charity's constitution. The Annual Report & Accounts would still need to be produced, submitted to OSCR and made available to anyone that asks for a copy. Given that most of these small charities will have few trustees, it may be advisable, in these circumstances, to require all of them to sign the Report & Accounts to signify agreement and acceptance. In terms of a threshold, this could be £10,000 (as proposed for England & Wales) or even as low as £5,000, which would still exempt a great many small charities from the requirement of independent examination (including having to find a competent independent examiner – itself difficult for many). Having a lower threshold in Scotland would not be a disadvantage, as charities of this size are very unlikely to be operating both north & south of the border.

### Independent Examiners

I note that an independent examiner continues to be defined as “*an independent person who is reasonably believed by the charity trustees to have the requisite ability and practical experience to carry out a competent examination of the accounts*”. Whilst I believe that this is appropriate, I am concerned that there does not appear to be any guidance or direction, either in the Regulations or from OSCR, as to how this definition should be interpreted, or the way in which an independent examination should be carried out.

In England & Wales, the Charity Commissioners provide guidance<sup>1</sup> on the selection of an independent examiner including definitions of “an independent person”, “requisite ability” and “practical experience”. In addition, the Charity Commissioners have issued *Directions* detailing what an examiner is required to do in order to fulfil the “competent examination” requirement.

Clearly independent examination of the accounts of a small charity, with a single fund and incoming resources of less than £5,000 p.a., is a much less onerous task, requiring less knowledge on the part of the examiner, than one where there are multiple funds, diverse assets & liabilities and incoming resources of more than £200,000. Some guidance/direction to trustees/examiners on what is required is, I believe, essential.

The recent pilot project conducted by OSCR clearly highlighted many instances of trustees and independent examiners not being fully aware of the current regulations or the requirements of independent examination, which have been in place for more than 12 years. In many small/medium-sized charities, trustees are often appointed *ex-officio* as a result of holding a particular post within the charity. Although probably very suitable for that post, their knowledge of the obligations and legislation surrounding their position as a trustee and the requirements of independent examination may well be less than complete.

Whilst not seeking to simply copy what is currently in place in England & Wales, I would strongly suggest that the following should be included, in some form, either in the proposed regulations or by directive from OSCR:-

- Detailed guidance to trustees on the selection of a suitable independent examiner.
- Detailed directions to examiners as to the minimum requirements that must be met in order to meet the “competent examination of the accounts” requirement.
- Minimum levels of relevant professional experience/qualifications required for an examiner for the size of the charity whose records are to be examined.

Appendix 1 details what I believe are more appropriate thresholds for the form of accounts, the level of external scrutiny and the experience/qualification of examiners that should apply.

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<sup>1</sup> CC63 Independent Examination of Charity Accounts – Directions & Guidance Notes

## Summary of Issues Raised

- P14 –As indicated above, I do not feel that the proposed thresholds are the most appropriate, although I would support a *deminimis* threshold below which independent examination is optional.
- P15 –As indicated above, I believe that the audit threshold in Scotland should be raised to the same level as England & Wales within a 3/5 year period thus removing the different scrutiny requirements.
- P15 – I agree with proposal that OSCR should have a discretionary power to grant specific variations from the regulations for charities that are subject to other SORPs.
- P16 – I do not see any reason why DRCs should not be required to follow the same accounting regulations as other charities in Scotland.
- P16 – I agree that charitable companies should be subject to the same audit or independent examination requirements as non-company charities, subject to the audit level being increased to £500,000 in due course and the introduction of a *deminimis* threshold below which independent examination is optional.
- P17 – I would support the proposals for accounting periods, the timeframe for submitting accounts and the actions available to OSCR.
- P17 – I have no difficulty with charities producing a Gaelic version of their Report & Accounts, if that is more appropriate for their operation. However, the primary version of the Report & Accounts, which must be made available to OSCR and anyone else who requests a copy, should be in English.
- P17 – I support the approach taken by the regulations towards the SORP.
- P18 – I have insufficient knowledge to comment effectively on the impact of the new regulations, as this will clearly vary considerably with the size of the charity. However, none of the assessments in the RIA appear to me to be unreasonable.

For the avoidance of doubt, I would confirm that the views expressed above are entirely my own and thus do not necessarily reflect the views of any of the organisations mentioned in this response.

Michael Brougham MCIBS

## Appendix 1

Suggested Form of Accounts and External Scrutiny for charities that are not companies.

Incoming Resources	Form of Accounts	External Scrutiny
Above £500,000	Full Accruals Accounts  Full compliance with the 2005 SORP	Audit by Registered Auditor
£250,000 to £500,000	Full Accruals Accounts  Full compliance with the 2005 SORP	Audit by Registered Auditor initially.  Within 3/5 years the audit limit should be raised to £500,000, following which Independent Examination would then apply (2)  The examiner must be a qualified accountant with relevant charity experience, or an individual with a similar qualification in charity finance at an appropriate level e.g. a full member of the Association of Charity Independent Examiners.
£100,000 to £250,000	Full Accruals Accounts  Compliance with 2005 SORP but with the permitted variations for smaller charities	Independent Examination (2)  It is strongly recommended that the examiner be a qualified accountant with relevant charity experience, or an individual with a similar qualification in charity finance at an appropriate level e.g. a full member of the Association of Charity Independent Examiners.
£5/10,000 to £100,000	Receipts & Payments Accounts (1)	Independent Examination (2)
Under £5/£10,000	Receipts & Payments Accounts (1)	Optional (3)

### Notes

- (1) Unless the charity's constitution or a donor/funder requires accruals accounts to be prepared.
- (2) Unless the charity's constitution or a donor/funder requires an audit.
- (3) Unless the charity's constitution or a donor/funder requires an audit or an independent examination.
- (4) Any charity that is eligible to prepare receipts & payments accounts may instead elect to prepare accruals accounts.
- (5) Any charity that is eligible for an independent examination may instead elect to have an audit.